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ABSTRACT

A study analyzed circulation practices and pricing of mid-sized daily newspapers, seeking to draw together a comprehensive description of the circulation situation for those papers. Seventy-five circulation directors, randomly selected from newspapers with daily circulation between 25,000 and 100,000, completed mailed questionnaires requesting data on circulation size, distribution and collection practices, production costs, and wholesale and retail prices or fees paid for delivery, for a variety of subscription and single copy sales options. The average daily circulation of papers in this study was 45,318, and the average Sunday circulation was 64,381. Data analysis revealed: (1) that the most common delivery system was that of independent distributors, (2) that compensation paid to contractors/agents was higher than that paid to independent distributors, (3) that papers with contractors/agents for delivery appeared to make greater use of mail collection than papers using any other type of delivery, (4) that there were no apparent differences in variable costs for papers with different types of delivery and collection systems, (5) that there were no differences in retail prices for papers under different delivery and collection systems, (6) that chain ownership had some effects on circulation practices and pricing--Sunday papers cost more, and (7) that ownership had some effect on the type of delivery system--independently owned papers were more likely to use agency and employee delivery systems. (Tables of data and notes are included.) (NKA)

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CIRCULATION PRACTICES AND PRICING IN MID-SIZED DAILIES

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CIRCULATION PRACTICES AND PRICING IN MID-SIZED DAILIES

This study considers circulation pricing and circulation and collection practices of mid-sized daily newspapers in the United States. It examines what types of distribution and collection practices exist in the industry, differences in practices depending upon the type of distribution system, whether pricing behavior varies according to different types of distribution, and whether group ownership affects circulation pricing, distribution type, and collection type.

Circulation policies and pricing have traditionally not been a great concern of publishers, most of whom have maintained distribution and collection systems established long before their employment and most of whom have set circulation prices based on industry averages rather than economic factors.[1] Rising production, labor, and circulation costs and changes in advertisers' purchasing habits in recent years are leading some publishers to reconsider their practices and prices.

Little data on such topics exist to help publishers project what the results of such changes might be or to allow academic researchers to consider the effects of different conditions on circulation practices and prices. Data on circulation practices and pricing are sketchy throughout the industry, and even the International Circulation Managers Association does not maintain economic data on the topic. Books on the topic of newspaper management barely touch on the subject of circulation, except to deal with personnel management and circulation promotion and

collection issues. Overall, there is an absence of authoritative industrywide data on what types of distribution and collection practices exist and what pricing strategies are being followed.

Several economic studies, however, have revealed that publishers need not be overly fearful of the consequences of reasonable circulation rate increases because demand for daily newspapers by media consumers is generally inelastic over time. Some studies have concluded that circulation is underpriced and papers are losing potential revenue.[2]

Newspapers that operate as monopolies have the ability to adjust circulation prices upward without significant fear of competition because barriers to entry into newspaper markets are prohibitive. If a new competitor should seek to enter the daily newspaper market, the existing paper enjoys economies of scale that the new paper would not enjoy, and the existing paper can use these economies and circulation price discounting to compete vigorously with the new entry.

Daily newspapers operating in monopoly situations have the opportunity of selecting the optimal circulation size and price per copy or subscription to maximize revenues and minimize expenses. This can be done without the concern about the behavior of competitors that normally affects economic decisions in other industries. This engineering of profit is possible and easily done in monopoly newspaper markets because there is no need to achieve the highest possible circulation. In such situations, papers can reduce circulation by raising prices or can cease circulation in unprofitable geographical areas or where the

demographics of readers are not as desirable to advertisers.

In markets where two or more daily newspapers compete, the newspaper with the largest circulation and highest market penetration receives a disproportionate amount of advertising revenue, even when the circulation differences are small.[3] Thus competitive papers must continually seek to increase circulation to gain the highest possible circulation lest they fall prey to the circulation spiral phenomenon.[4] Because of the impact of circulation on advertising, many of the second newspapers competing in multi-newspaper markets such as Detroit, Dallas, Denver, and Los Angeles are experiencing difficulties.

More than 98 percent of all newspaper markets are noncompetitive, however. Publishers in these markets need not be as greatly concerned about circulation levels as their counterparts in competitive markets. Such publishers need only ensure that the market penetration of their paper is strong and not vulnerable to a new daily newspaper entering the market or so low as to induce significant use of substitute media by advertisers. The only other important concern regarding circulation for these publishers is the engineering of profit by choosing any reasonable price and circulation quantity combination to yield optimal results.

A few circulation studies related to chain owned papers have been undertaken in recent years. One concluded that papers owned by newspaper groups charge 14 percent more for monthly subscriptions than independent papers.[5] Another study found that the Gannett Co. in particular reduced the circulation of many of

its papers to engineer profit. Profit, rather than keeping the circulation high, was the priority.[6] These results should not be surprising since managers of chain-owned newspapers emphasize financial performance more than those at independent papers and place greater attention on pricing behavior.[7]

The industry average retail price for daily newspapers is 25 cents and the average Sunday retail price is 50 cents. These prices have been moved upward in recent years, with about 10 percent of all papers now charging 35 cents daily and 16 percent charging one dollar for Sunday papers.[8]

The Gannett Co. is an industry leader in moving prices upward. Allen Neuharth, chairman of the board of the Gannett Co., has in recent years urged his executives and those of other companies to raise circulation prices, noting the relative inelasticity of demand on circulation.[9] The ability of monopoly markets to absorb such rate increases has been revealed in several studies. Subscription price increases, for example, have been significantly correlated with changes from competing to monopoly markets brought on by cessation of publication or merger.[10] A study of papers in monopoly markets found that papers in the average monopoly market had lower subscription rates than papers in the average competing market but that single copy prices were not significantly different.[11]

The current study focuses the analysis of circulation practices and pricing on mid-sized daily newspapers, seeking to draw together a comprehensive description of the circulation situation for those papers.

Method

Circulation directors from 75 of 403 papers with between 25,000 and 100,000 daily circulation listed in Editor & Publisher International Yearbook 1986 were randomly selected and asked to complete mailed questionnaires for the study.

Thirty-five circulation directors responded, a 47 percent response rate, reporting data on circulation pricing and practices for their papers. The sample represent about 9 percent of the population. Respondents were geographically situated in every region of the country and came from 21 separate states. The sample size was considered adequate for this type of exploratory study.

The questionnaire requested data on circulation size, distribution and collection practices, production costs, and wholesale and retail prices or fees paid for delivery for a variety of subscription and single copy sales types. Data were gathered for a total of 41 variables to be considered in the study.

Results

Circulation

The average daily circulation of newspapers in this study was 45,318 and the average sunday circulation was 64,381. The daily circulations of the papers in the study ranged from 25,200 to 81,131. Sunday circulation ranged from 30,191 to 137,294. Sunday papers had an average of 42.1 percent higher circulation than their daily counterparts.

Of the papers, 31 or 88.6 percent were published in towns

where no other daily paper was published in the city zone.

Ownership

Of the papers in the sample, 37.1 percent (13) were independently owned and 62.8 percent (22) were owned by newspaper groups. Of those owned by groups, 59.1 percent (13) were owned by small groups and 40.9 percent (9) were owned by large groups.

For the purposes of this study, large groups were defined as those newspaper groups, listed among the 20 largest newspaper companies in the ANPA Facts About Newspapers '86 that owned 20 or more papers in 1985.[12]

Distribution Types

The primary type of delivery reported by the circulation directors was independent distributorships. This type of distribution arrangement was found in 27, that is, 77.1 percent of the papers. Under this system independent distributors purchase papers at wholesale prices and sell at retail prices.

Contract distributors, or agents, who are paid a set fee for delivering each subscription, were found in 14.3 percent (5) of the papers, and 8.6 percent (3) of the papers reported using employees who received hourly wages or salaries for distribution.

Collection Types

The primary collection system used by the papers in this study is independent distributors or agents who collect payments from subscribers and then forward payment to the paper after

taking their percentage or fee from the amount collected. Although this type of collection system was the one most frequently reported, it exists in only 54.3 percent (19) of the papers.

Mail collection is used in 28.6 percent (10) of the papers, with bills being delivered or mailed to subscribers and payments then being mailed back directly to the paper. The paper then calculates and makes payments due to distribution personnel. A similar system, whereby collections are made by independent distributors or agents and the proceeds delivered to the paper for calculation of payments for distribution personnel, is found in 14.3 percent (5) of the papers. Of the newspapers in the sample, one (2.9 percent) utilized newspaper employees to collect door-to-door.

Newspaper Costs

Circulation directors were asked to report the average estimated cost to the paper for producing papers for sale, and a third of the respondents were able to do so. Many of the remainder indicated that such data were unavailable to them. The fact that so many of the circulation directors who have the primary responsibility for setting or at least suggesting price structure for circulation do not have such information available is surprising.

In all but one case, data reported were for variable costs, that is. the newsprint, ink, and other materials required to produce a copy of the paper. One circulation director reported

fixed cost data, including equipment and facilities. That response was not included in the analysis because it was not comparable to the other responses.

The reported average cost for a single weekday copy was 14 cents. A single Sunday copy averaged 34 cents and weekly subscription costs averaged $1.55.

Single Copy Prices

The average daily single copy price in newsracks was 30 cents. Eighteen, 51.4 percent, of the papers had a 25 cent price and fourteen, 40 percent, had a 35 cent price for weekday copies.

The average Sunday single copy price was 80 cents. Of the papers in the study, 42.9 percent (12) listed a 75 cent price, and 32.1 percent (9) a one dollar Sunday price.

Single Copy Markup

The average price markup from variable costs to average retail price is thus 114 percent for single weekday copies and 135 percent for single sunday copies (TABLE I). While these measures are useful indicators of markup, they must be used with cognizance of the fact that full costs are not calculated in the data.

Published Prices

All the circulation directors responding indicated that their papers published the suggested retail price or retail price for subscriptions in their papers.

In situations where multiple rates are set by publishers for delivery, based on geographical and other cost factors, the

TABLE I

AVERAGE COST TO AVERAGE RETAIL PRICE MARKUP

FOR ALL DISTRIBUTION TYPES

	Single Copy Weekday	Single Copy Sunday
Average Retail Price	.30	.80
Average Prod. Cost	.14	.34
Difference	.16	.46
Percent Markup	114	135

various prices were published in most of the papers. In 75 percent of the cases all rates were published. In 25 percent only the basic rate was published.

Pricing and Practices in Independent Distributorships

Papers using independent distributors as carriers tend to publish seven days a week, the standard for mid-sized daily papers.

The average price markup from wholesale to retail price across five standard categories of prices was 39.2 percent, ranging from a high of 43.5 percent markup for single weekday copies to a low of 27 percent markup for single sunday copies.

The markup for full weekly subscriptions average 39.5 percent (Table II).

TABLE II

AVERAGE PRICE MARKUP FOR PAPERS WITH INDEPENDENT DISTRIBUTORS

	Weekly Subscription	Weekly Sub.-Sun.	Sunday Only Sub.	Single Copy	Single Copy Sun.
Retail	2.05	1.50	.90	.33	.80
Wholesale	1.47	1.05	.63	.23	.63
Markup	.58	.45	.27	.10	.17
Percent	39.5	42.9	42.9	43.5	27

[Average markup across all categories: 39.2 percent]

Of papers using independent distributors as their primary type of distribution, 94.7 percent (18) suggested a retail price for distributors to charge. Of those suggesting such a price, all reported printing the price in their papers, and 88.9 percent (16) reported printing the price in promotional material provided to independent distributors.

Nearly two-thirds of the circulation directors responding, 63.2 percent (12), indicated that they discouraged independent distributors from setting prices different from the suggested retail price. Of the remaining respondents who indicated that they did not discourage distributors setting prices, about half indicated that a situation in which distributors attempted to do so had never occurred at their papers.

Collection by independent distributors is done primarily by the carriers who collect payment and pass them on to papers after subtracting their fee. This is the case in 66.7 percent (18) of the papers reporting. 18.5 percent (3) reported using mail collections returned to the paper for handling, and 14.8 percent (4) reported carrier collection with payments being returned to the paper before the carrier markup is subtracted.

Pricing and Practices in Agency Distributorships

Data provided for this study indicate that papers using agency, also called contractor, distribution often do not to publish on Sundays, and that contract carriers are better compensated for delivery than are independent distributors.

Of the papers in the sample 60 percent (3) using agency distributorships did not publish Sunday papers.

Agents receive an average of 73 cents for delivering weekly subscriptions (Monday through Saturday) and 65 cents for delivering each weekly subscription (Monday through Sunday). Payment to agents for Sunday-only delivery averaged 53 cents.

Eighty percent of the papers (4) using contract carriers charged a single price for home delivery and printed that price in their papers. The one paper that charged multiple rates based on geographic and other factors published all its rates in the paper.

Papers using agents or contractors at a set fee for distribution rely heavily on mail collection, according to responses to this survey. In 80 percent (4) of the cases,

payments for subscriptions were mailed to the papers after being mailed or delivered to subscribers' homes.

Pricing and Practices in Employee Distribution

Only three papers reported using employee distribution as their primary distribution system. Because that number is low, the data must be considered in light of their possible unrepresentativeness when considered separately from the sample as a whole.

None of the papers using this system reported Sunday newspaper production. The average weekly subscription was $2 and the average weekly subscription (minus sunday) was $1.62. Two of the papers charged a single rate regardless of where delivered, and one charged multiple rates based on geographical factors. The paper using multiple rates publishes all rates in the paper.

The papers using employees for distribution split on their primary collection system. Half the papers reported using mail collections and half reported sending employees door-to-door to collect payment for subscriptions.

Differences Between Types of Distribution and Collection Systems

This study clearly reveals differences between the types of distribution and collection systems employed by newspapers. The type of collection system is clearly linked to the type of distribution system employed.

Of papers using independent distributors as carriers, 81.5 percent (22) used those same carriers to make collections. This compares to the use of carriers for collections only 20 percent

(1) of the time in contractor/agent distribution.

Papers with contractor/agent distributors use mail collection 80 percent (4) of the time compared to its use only 18.5 percent (5) of the time by papers with independent distributors (Table III).

TABLE III

COLLECTION TYPES USED IN VARIOUS DISTRIBUTION SYSTEMS

	Carriers Collect & Subtract % or fee	Carriers Collect; Papers Subtract % or fee	Mail Collection	Employees Collect Door-to-Door
Ind.	18	4	5	--
Dist.	66.7%	14.8%	18.5%	--
Cont./ Agent	--	1	4	--
Dist.	--	20.0%	80.0%	--
Emp.	--	--	1	1
Dist.	--	--	50.0%	50.0%

X^2 p = .0002

Comparison of Compensation Between Independent and Contractor/Agent Distribution

A comparison of compensation provided for delivery reveals that contractor/agents are better compensated than independent distributors for their labor.

In a comparison of the two categories of subscription compensation found in both independent and contract distribution,

the differences are clearly visible. Contractor/agents receive 62.2 percent more compensation for delivery of weekly subscriptions (excluding Sunday) than independent distributors (Table IV). Agents receive 12.1 percent more compensation for full weekly subscriptions (Monday through Sunday) A comparison of distribution of Sunday-only subscriptions reveals that contractor/agents are paid 96.3 percent higher than the average compensation for independent distributors making similar deliveries.

TABLE IV

DIFFERENCES BETWEEN AVERAGE COMPENSATION FOR CONTRACT AND INDEPENDENT DISTRIBUTORS

	Weekly Sub. Mon. to Sun.	Weekly Sub.-Sunday	Sunday Only Sub.
Agent fee	.65	.73	.53
Indep. distrib.	.58	.45	.27
Difference	.07	.28	.26
Percent	12.1	62.2	96.3

Chain Ownership Effects on Practices and Prices

This study also considered whether chain ownership had any affect on the practices or pricing behavior of the papers in the study Of the 41 variables considered, chain ownership was found

to have an effect on only five variables, involving two areas of inquiry: type of delivery and pricing of Sunday newspapers.

A difference was found in the type of delivery employed (Table V). Chain-owned papers were most likely to use independent distributors, with 86.4 percent (19) of these papers using this type. Only 13.6 percent (3) used agency or employee distribution.

Independent papers were more likely to use forms of distribution other than independent distributors. Only 61.5 percent (8) of these papers used independent distributors for delivery.

TABLE V

OWNERSHIP AND DELIVERY TYPE

	Independent Distributors	Other Distributors
Independent Papers	8 61.5%	5 38.5%
Chain-Owned Papers	19 86.4%	3 13.6%

X^2 p = .091

Significant differences were found involving several variables that related ownership to Sunday newspaper prices. The single copy Sunday newsstand retail price was lower for independent papers than either small or large chains (table VI).

Three other variables also showed differences between Sunday prices related to ownership under independent distributorships. In these cases, prices for single copy Sunday papers and Sunday-only subscriptions for papers delivered by independent distributors were found to be significantly difference (Tables

TABLE VI

OWNERSHIP AND SUNDAY SINGLE COPY NEWSSTAND RETAIL PRICE

	Low Price*	High Price
Independent Papers	10 100%	0 0%
Small Chain-Owned Papers	5 41.7%	7 58.3%
Large Chain-Owned Papers	3 50.0%	3 50.0%

x^2 p = .0125

*Low = $< \bar{x}$; High = $> \bar{x}$

VII and VIII). The majority of chain-owned papers charged high prices for single copies of Sunday papers, while all of the independent papers set low prices. When considering the retail price of Sunday-only subscriptions, all of the independent papers set a low price while 72.7 percent of chain-owned papers set a high price for the same subscription.

TABLE VII

OWNERSHIP AND SINGLE COPY SUNDAY PRICE

FOR PAPERS WITH INDEPENDENT DISTRIBUTORS

	Low Price*	High Price
Independent Papers	7 100.0%	0 0%
Chain-Owned Papers	6 37.5%	10 62.5%

x^2 p = .005

* Low = $< \bar{x}$; High = $> \bar{x}$

TABLE VIII

OWNERSHIP AND SUNDAY-ONLY SUBSCRIPTION PRICE

FOR PAPERS WITH INDEPENDENT DISTRIBUTORS

	Low Price*	High Price
Independent Papers	6 100.0%	0 0%
Chain-Owned Papers	3 27.3%	8 72.7%

X^2 $p = .004$

*Low = $< \bar{x}$; High = $> \bar{x}$

In the third situation involving Sunday pricing in papers with independent distributors, chain-owned papers were found to have a greater markup between wholesale price and retail price, thus providing greater compensation than papers owned by independents (Table IX). These papers, which also charged readers a higher price than independent papers, were apparently passing on part of that additional revenue to distributors.

TABLE IX

OWNERSHIP AND SUNDAY-ONLY SUBSCRIPTION MARKUP

FOR PAPERS WITH INDEPENDENT DISTRIBUTORS

	Low Markup*	High Markup
Independent Papers	6 100.0%	0 0%
Chain-Owned Papers	4 40.0%	6 60.9%

X^2 $p = .016$

*Low = $< \bar{x}$; High = $> \bar{x}$

Summary

This exploratory study reveals a number of important traits about circulation practices and pricing in mid-sized daily newspapers.

The most common delivery system is that of independent distributors. A majority of papers using independent distributors discourage those distributors from setting prices different from the suggested retail price. This practice is significant because it can violate provisions of antitrust laws involving price fixing and leaves papers open to prosecution and litigation.

There is a difference in compensation paid to independent distributors and contractors/agents. The latter receive higher compensation for comparable tasks. This result is surprising since one would presume that independent distributors, who take economic risks as small businessmen and women, would receive more compensation than those who do not have to take such risks.

Papers with contractors/agents for delivery appear to make greater use of mail collection than papers using any other types of delivery. This is an interesting but not surprising finding. Because papers switching from the traditional independent distributorships to other forms of delivery are presumably doing so to achieve more efficiency in delivery and collection tasks, the greater use of efficient mail collection makes sense.

There are no apparent differences in variable costs for papers with different types of delivery and collection systems, and there are no differences in retail price for papers under different delivery and collection systems.

Chain ownership has some effects on circulation practices and pricing, with most being visible in the pricing of Sunday circulation. Chain-owned papers charge higher prices for Sunday single copies and Sunday-only subscriptions than do independently owned papers.

Ownership was also found to have an effect on the type of delivery system. Independently owned papers are more likely than chain-owned papers to use agency and employee delivery systems.

NOTES

1. Edmund Landau and John Scott Davenport, "Price Anomalies of the Mass Media," Journalism Quarterly 36:291-294 (Summer 1959).

2. See, for example, Robert W. Field, "Circulation Price Inelasticity in the Daily Newspaper Industry," M.A. Thesis, University of Oklahoma, 1978; Jeff Clark, "Circulation Increase Despite Higher Subscription Rates," Editor & Publisher (February 4, 1976), p. 32; and Gerald Grotta, "Daily Newspaper Circulation Price Inelastic for 1970-75," Journalism Quarterly 54:379-382 (Summer 1977).

3. John G. Udell, The Economics of the American Daily Newspaper. New York: Hastings House, 1978.

4. See Lars Furhoff, "Some Reflections on Newspaper Concentration," Scandinavian Economic History Review 21:1-27 (1973); and Karl Erik Gustafsson, "The Circulation Spiral and the Theory of Household Coverage," Scandinavian Economic History Review 28:1-14 (1978).

5. F. Dennis Hale, "An In-depth Look at Chain Ownership," Editor & Publisher (April 28, 1984), pp. 30ff.

6. William Blankenburg, "Newspaper Ownership and Control of Circulation to Increase Profits," Journalism Quarterly 59:390-398 (Autumn 1982).

7. John Soloski, "Economics and Management: The Real Influence of Newspaper Groups," Newspaper Research Journal 1:19-28 (November 1979).

8. Facts About Newspapers '86: A Statistical Summary of the Newspaper Business. Reston, Va.: American Newspaper Publishers Association, 1986.

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10. Gerald Grotta, "Consolidation of Newspapers: What Happens to the Consumer," Journalism Quarterly 48:245-250 (Summer 1971).

11. Robert G. Picard, "Pricing in Competing and Monopoly Newspapers, 1972-1982," LSU School of Journalism Research Bulletin (1986).

12. op cit.